Report

of the

Examination of

Sentry Casualty Company

Stevens Point, Wisconsin

As of December 31, 2003

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125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: information@oci.state.wi.us
Web Address: oci.wi.gov

June 6, 2005

Honorable Jorge Gomez
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53702

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

SENTRY CASUALTY COMPANY
Stevens Point, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Sentry Casualty Company (Sentry Casualty or the company) was conducted in 2003 as of December 31, 2002. The current examination covered the intervening period ending December 31, 2003, and included a review of such 2004 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the company’s loss and loss adjustment expense reserves. The actuary’s results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary’s conclusion.

II. HISTORY AND PLAN OF OPERATION

The company was organized in 1973, under the laws of Nevada, as Tahoe Insurance Company and commenced business on August 2, 1973. Tahoe Insurance Company was organized by Deere & Company, a publicly traded holding company which specializes in tractors and farm equipment, with an authorized capital of $2,500,000 consisting of 100,000 authorized shares. Originally, 8,400 shares were issued to Sierra General Life Insurance Company and 31,600 shares were issued to Deere & Company. Deere & Company subsequently donated its shares to John Deere Insurance Group Inc. Upon the liquidation of Sierra General Life Insurance Company on November 3, 1995, effective September 30, 1995, its shares of Tahoe Insurance Company were assumed by John Deere Insurance Group, Inc. The Tahoe Insurance Company was redomiciled to Illinois on January 1, 1996, and on March 22, 1996, changed its name to John Deere Casualty Company.

Sentry Insurance a Mutual Company (SIAMCO) acquired the company with the acquisition of Sentry Insurance Holding Company, f/k/a John Deere Insurance Group, Inc., on September 30, 1999, and changed the company's name to Sentry Casualty Company. On January 1, 2001, the company redomiciled to the state of Wisconsin.

As of December 31, 2003, the company was licensed in Illinois, Iowa, Kansas, Nebraska, Nevada, Oklahoma, Tennessee, Texas, Virginia, Washington, and Wisconsin. The company was licensed in 31 additional states during 2004 bringing the total number of licenses to 42 at year-end 2004. It does not, however, currently write any direct premium. The company plans to obtain licenses in all 50 states. The plan is that Sentry Casualty will begin to write specific lines of business when it is licensed in a sufficient number of states.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of five members elected annually by the shareholder. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members receive no compensation specific to their service on the board because all are employees of the parent, Sentry Insurance a Mutual Company.

Sentry Casualty's board of directors meets once a year. Other actions of the board are evidenced by consent resolutions signed by all directors. This practice is permitted by s. 180.0821, Wis. Stat.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Dale R. Schuh Stevens Point, Wisconsin	Chairman of the Board, Chief Executive Officer and President Sentry Insurance a Mutual Company	2005
Janet L. Fagan Stevens Point, Wisconsin	Vice President and Chief Actuary Sentry Insurance a Mutual Company	2005
William J. Lohr Stevens Point, Wisconsin	Vice President and Treasurer Sentry Insurance a Mutual Company	2005
William M. O'Reilly Stevens Point, Wisconsin	Vice President, General Counsel and Corporate Secretary Sentry Insurance a Mutual Company	2005
James J. Weishan Stevens Point, Wisconsin	Vice President – Investments Sentry Insurance a Mutual Company	2005

Officers of the Company

The officers serving at the time of this examination are as follows. The officers are employed and compensated by SIAMCO.

Name	Office
Dale Robert Schuh	Chairman of the Board
James Craig Clawson	President
William James Lohr	Treasurer
William Michael O'Reilly	Secretary
Janet Leitner Fagan	Vice President

Currently, since the company is dormant, no portion of the officers' salaries is allocated to Sentry Casualty Company.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The company did not have any committees at the time of the examination.

IV. AFFILIATED COMPANIES

Sentry Casualty is a member of a holding company system (Sentry Insurance Group) controlled by Sentry Insurance a Mutual Company (SIAMCO), a Wisconsin-domiciled mutual insurer. Including Sentry Casualty, SIAMCO has 22 subsidiaries and affiliates, including 11 insurers and 11 noninsurance entities. SIAMCO is also affiliated with Dairyland County Mutual Insurance Company of Texas through common management. A chart of all of the entities in the holding company system is presented later in this section of the examination report.

A discussion of all the Sentry Insurance Group affiliated companies is included in the examination report for SIAMCO. This report includes only those affiliates with which Sentry Casualty has reinsurance or other important affiliated relationships.

Sentry Insurance a Mutual Company

SIAMCO owns all of the issued and outstanding common stock of Sentry Casualty. SIAMCO is licensed in all 50 states, the District of Columbia, Puerto Rico, and Canada. On a direct basis, the parent company writes a wide range of property and casualty insurance products, predominantly worker's compensation and automobile coverages. SIAMCO has a 60% participation in the affiliated pooling agreement whereby all property and casualty business written by the Sentry Insurance Group is combined and reapportioned. The 2003 annual statement reported assets of $4,282,734,663, liabilities of $2,105,670,251, policyholders' surplus of $2,177,064,411, and net income of $116,879,367. SIAMCO was examined concurrently with Sentry Casualty as of December 31, 2003, and the results of that examination are expressed in a separate report.

Sentry Insurance Holding Company

On September 30, 1999, Sentry Insurance a Mutual Company acquired 100% of the John Deere Insurance Group, Inc. The name was changed to Sentry Insurance Holding Company. The subsidiaries of the holding company were Sentry Select Insurance Company (formerly John Deere Insurance Company), Sentry Casualty Company (formerly John Deere Casualty Company), Rock River Insurance Company, and Sentry Insurance Agency, Inc. (formerly John Deere Insurance Agency, Inc.). The Parker Stevens Agency of Texas, Inc.

(formerly John Deere General Agency, Inc.), is a subsidiary of Sentry Select Insurance Company. This office approved the redomestication of the three John Deere insurance companies to Wisconsin effective January 1, 2001.

The acquisition of the John Deere Insurance Group was viewed as an opportunity for growth and enabled the Sentry Group to offer a full line of insurance products to dealers of farm and lawn equipment, construction equipment and recreational vehicles, and to trucking operations.

On February 1, 2002, Sentry Insurance Holding Company sold Rock River Insurance Company to Arch Capital Group, Ltd. Effective January 1, 2003, Sentry Insurance Agency, Inc., was merged into Parker Stevens Agency, LLC, and effective June 1, 2004, Parker Stevens Agency of Texas, Inc., was also merged into Parker Stevens Agency, LLC.

As of December 31, 2003, Sentry Insurance Holding Company reported $164,302,924 in assets, $1,558,712 in liabilities, and $162,744,212 in equity. The reported net income of $2,803,722 was primarily from the increase in equity in its companies.

Sentry Select Insurance Company

Sentry Select Insurance Company is a property and casualty insurer incorporated on August 1, 1929, as the Fulton Fire Insurance Company under the laws of New York. On May 8, 1969, Deere & Company acquired the company from Hanover Insurance Company of New York and changed its name to John Deere Insurance Company. The company redomiciled to the State of Illinois on December 31, 1982. SIAMCO acquired 100% indirect ownership in connection with the acquisition of Sentry Insurance Holding Company on September 30, 1999, and the name was changed to Sentry Select Insurance Company. On January 1, 2001, the company redomiciled to the state of Wisconsin.

Sentry Select is licensed in all 50 states and the District of Columbia. Of its direct business, the company writes 51% in auto, 10% in inland marine, and 14% in worker's compensation lines of business. Sentry Select also assumes 100% of the business from Sentry Casualty Company. Sentry Select has a 10% participation in the affiliated pooling agreement with SIAMCO, Dairyland, and Middlesex. The 2003 annual statement reported assets of

$532,976,838, liabilities of $385,419,139, policyholders' surplus of $147,557,700, and net income of $11,599,064. Sentry Select was examined concurrently with Sentry Casualty as of December 31, 2003, and the results of that examination are expressed in a separate report.

Sentry Investment Management, Inc.

Sentry Investment Management, Inc., a Delaware corporation organized on June 13, 1969, manages the investment portfolios of SIAMCO and its affiliates, subject to the direction of their respective boards of directors. As of December 31, 2003, the corporation reported $354,027 in assets, $218,537 in liabilities, $135,490 in stockholder's equity, and $5,538 in net income. The company is a wholly owned subsidiary of SIAMCO.

Affiliated Agreements

Sentry Casualty has no employees of its own. All operations are conducted by employees of its parent organization, SIAMCO, in accordance with its business practices and internal controls. In addition, the company's operations are affected by written agreements with Sentry Insurance Group affiliates. The reinsurance contracts are described in the "Reinsurance" section of this report. A brief summary of the other agreements follows.

Service Agreement

Sentry Casualty entered into an intercompany servicing agreement with SIAMCO effective December 31, 2003. This agreement was amended and restated as of March 19, 2004, to include an updated version of Exhibit 1, Intercompany Settlement Policy described below, to add Parker Centennial Assurance Company (Parker Centennial). Services provided by SIAMCO include, but are not limited to, premium accounting and collection, budgeting, disbursement services, administration of loss and loss adjustment expense payments, and management services. The agreement permits Sentry Casualty to audit records pertaining to services performed by SIAMCO under this agreement. Termination, or changes in the terms and conditions of service, may be effected by either party on 30 days' written notice. The form of the agreement is structured so that essential aspects of the allocation methodology itself are referenced in attachments which are periodically updated.

Intercompany Settlement Policy

The Intercompany Settlement Policy has been amended and restated to add or delete companies as necessary. This contract was last amended and restated as of March 19, 2004, to add Parker Centennial. The cash management area settles intercompany balances, in SLAP where possible, based on policies and procedures listed in the agreement for daily, weekly, monthly, semi-annual and annual settlements. Other settlements under the agreement include reinsurance balances, which are to be settled according to the terms contained in the reinsurance agreements, and Sentry Aviation Services and Sentry Services, which are settled as funds are available.

Sentry Complex Income Tax Allocation Agreement

On February 22, 1983, the SIAMCO board of directors adopted a written federal income tax allocation policy for all companies that are party to SIAMCO's consolidated return. This agreement has been amended and restated to add or delete companies as needed. The latest amended and restated agreement is as of March 19, 2004, to add Parker Centennial Assurance Company (Parker Centennial). The key premise of this policy is that parties to the consolidated return that receive a tax reduction through utilization of some other member's tax loss are to compensate that other member for the use of the loss. Federal income taxes payable and tax benefits receivable are to be settled among the participants on the consolidated return on the same dates as would be required of each participant on a separate return basis.

Joint Investment Agreement

Effective January 1, 1980, the company entered into a joint investment agreement with various affiliates to establish the Sentry Liquid Asset Partnership (SLAP), a joint venture organized pursuant to the Wisconsin Uniform Partnership Act. This agreement has been amended and restated to add or delete companies as needed. The fifth amended and restated agreement was entered into as of September 1, 2004, to delete Sentry Life Insurance Company of New York (SLONY). SIAMCO is designated as the managing partner, though the agreement permits a change by a majority decision of the participants. A participant may withdraw from the joint venture upon the delivery of written notice to the managing partner. The joint venture shall dissolve at such time as only one participant remains in the joint venture.

The business of the joint venture consists of investing and reinvesting funds contributed by the members in short-term obligations of banks, corporations, and the U.S. federal government with a maximum duration of 12 months. It functions in a manner analogous to a short-term bond mutual fund. Investment advisory services are provided by Sentry Investment Management, Inc. This office has directed all Wisconsin-domiciled Sentry companies to report their respective balances in SLAP as a one-line entry on Schedule DA – Part 1 (Short-Term Investments).

Investment Advisory Agreement

On October 1, 1999, the company entered into an investment advisory agreement with Sentry Investment Management, Inc. (SIMI). This contract was amended and restated as of December 31, 2003. Under this contract, SIMI is employed to manage and direct the investment and reinvestment of the assets of Sentry Casualty, subject to the control of its board of directors. SIMI agrees to comply with the company's articles, bylaws, investment policies, and all applicable federal and state laws. SIMI charges the company a monthly fee computed as follows:

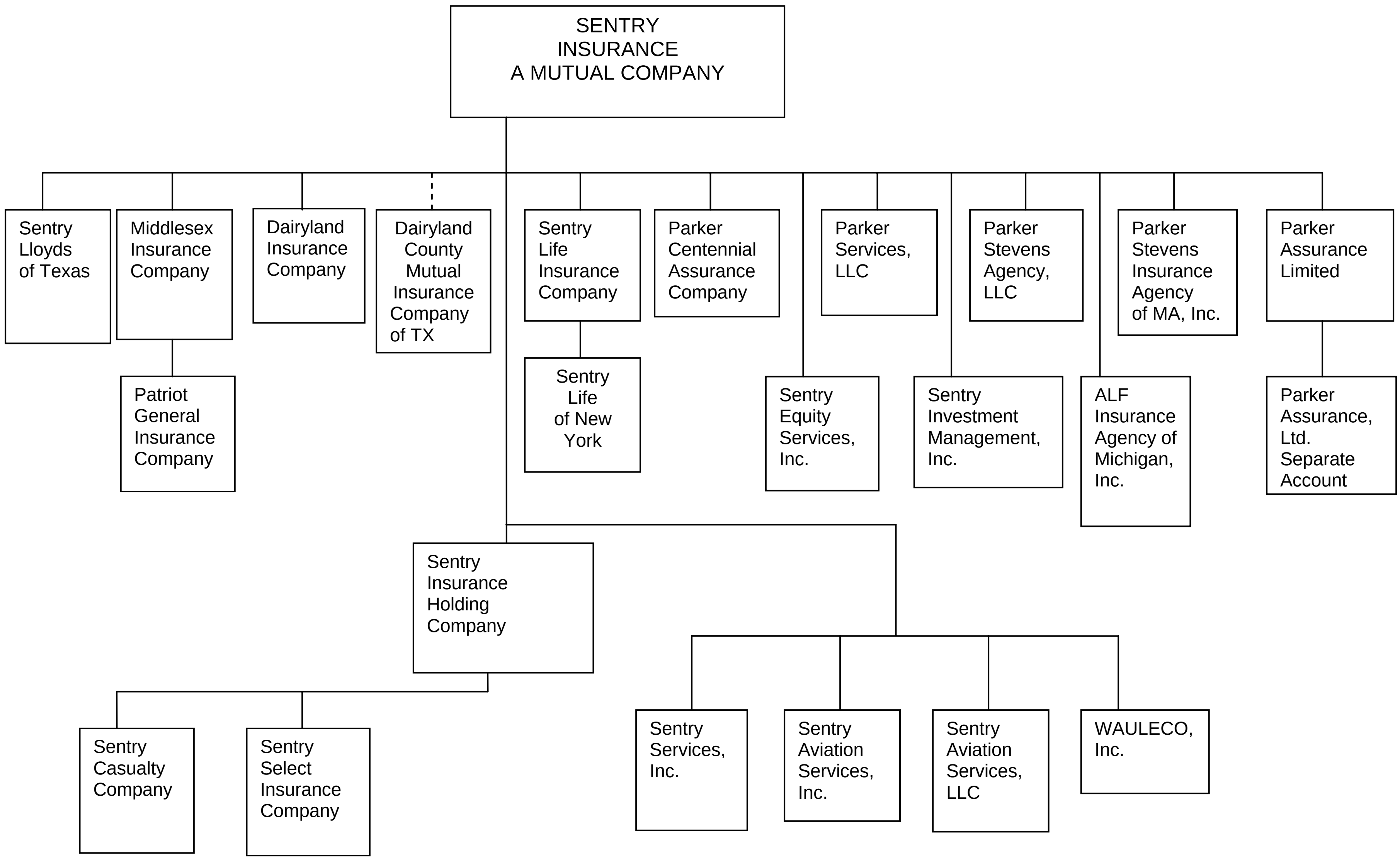
> One twelfth (1/12) of an amount equal to the sum of (a) and (b)
>
> (a) Common stocks, excluding those of affiliates:
> .379% ($3.79 per $1,000) of market value;
>
> (b) Bonds and preferred stocks, excluding those of affiliates:
> .0379 percent ($.379 per $1,000) of market value.
>
> In addition, the actual cost of any expense borne by the advisor on behalf of the company is reimbursed. The contract may be terminated by either of the parties with 60 days' written notice.

General Expense Allocation Agreement

In 1993, the insurance companies of the Sentry Insurance Group entered into a written general expense allocation agreement. The agreement formalized the parties' consent to an accounting allocation process that had been in place since 1982. This agreement has been amended and restated to add or delete companies as needed. The latest amended and restated agreement is effective December 31, 2003, and was amended on March 19, 2004, to add Parker

Centennial. Under the agreed procedure, expenses are first grouped and assigned to cost pools, each of which is distinguished by one or more of four characteristics, including activity, location, center, and division. Expenses, once assigned to cost pools, are then allocated to specific insurance products. An expense is not assigned to a specific legal entity until after it is coded to a cost pool and then to a specific product. Allocation at each phase of this process, outlined here in simplified form, is based on specific identification, utilization estimates developed from such criteria as premium or claim volume, time studies, or other rational means of distribution.

Sentry Group
Organizational Chart
As of December 31, 2004



V. REINSURANCE

The company's reinsurance portfolio and strategy is described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contract contained proper insolvency provisions.

Ceding Contracts

Sentry Casualty has a 100% Quota Share agreement with Sentry Select whereby Sentry Select assumes 100% of Sentry Casualty's business. Currently, Sentry Casualty is not writing any business, however, this agreement remains in place so that when Sentry Casualty begins writing business it will be ceded 100% to Sentry Select. Sentry Select cedes its business to SIAMCO and assumes 10% of Sentry group's pooled business.

Nonaffiliated Ceding Contracts

1.	Type:	Multiple Line Excess of Loss
	Reinsurer:	See Table A at the end of this section
	Scope:	Property and casualty business
	Retention:	$2,500,000 each risk, each occurrence
	Coverage:	The amount of ultimate net loss, including loss adjustment expenses, in excess of the company's retention of $2,500,000 per risk. Reinsurer risk not to exceed $12,500,000 as respects any one risk each loss, nor shall it exceed $25,000,000 all risks involved in any one occurrence.
	Premium:	Annual minimum deposit of $21,920,000; actual premium is 1.65% of subject net premiums earned for property business and 1.65% of subject net earned premium for casualty business.
	Commissions:	None
	Effective date:	January 1, 2004
	Termination:	Company may terminate upon 60-day notice to reinsurer. Reinsurer may terminate upon 90-day notice to company.
2.	Type:	Multiple Line Clash and Contingency Excess
	Reinsurers:	See Table B at the end of this section
	Scope:	Property and casualty losses
	Commission:	None

	Effective date:	January 1, 2004
	Termination:	Company may terminate upon a 10-day notice to reinsurer.
	a. First Layer Retention:	$15,000,000 each risk, each occurrence
	Coverage:	Ultimate net loss in excess of the company's retention, up to a limit of $5,000,000 per loss occurrence, and $15,000,000 in aggregate for the contract year
	Premium:	Annual minimum deposit premium of $748,000; actual premium is .0563% of subject net earned premium
	b. Second Layer Retention:	$20,000,000 each risk, each occurrence
	Coverage:	Ultimate net loss in excess of the company's retention, up to a limit of $10,000,000 per loss occurrence, and $20,000,000 in aggregate for the contract year
	Premium:	Annual minimum deposit premium of $692,000; or .0521% of subject direct earned premium
	c. Third Layer Retention:	$30,000,000 each risk, each occurrence
	Coverage:	Ultimate net loss in excess of the company's retention, up to a limit of $20,000,000 per occurrence, and $40,000,000 in aggregate for the contract year
	Premium:	Annual minimum deposit premium of $920,000; or .0690% of subject direct earned premium
	d. Fourth Layer Retention:	$50,000,000 each risk, each occurrence
	Coverage:	Ultimate net loss in excess of the company's retention, up to a limit of $20,000,000 per occurrence, and $40,000,000 in aggregate for the contract year
	Premium:	Annual minimum deposit premium of $742,000; or .0558% of subject direct earned premium
3.	Type:	Property Catastrophe Excess of Loss
	Reinsurers:	See Table C at the end of this section
	Scope:	Property
	Effective date:	January 1, 2004
	Termination:	Company or reinsurer may terminate agreement upon 90-day notice to each other

a. First Layer

Retention:	$10,000,000 each occurrence plus 5 % of the next layer
Coverage:	95% of the company's ultimate net loss, including loss adjustment expenses, in excess of the company's retention, up to a limit of $5,000,000 per loss occurrence, and $10,000,000 aggregate for the contract year
Premium:	Annual deposit of $738,000; actual premium is .4100% of subject net earned premium

b. Second Layer

Retention:	$15,000,000 each occurrence plus 5% of the next layer
Coverage:	95% of the company's ultimate net loss, including loss adjustment expenses, in excess of the company's retention, up to a limit of $15,000,000 per loss occurrence, and $30,000,000 aggregate for the contract year
Premium:	Annual deposit of $1,530,000; actual premium is .8500% of subject net earned premium

c. Third Layer

Retention:	$30,000,000 each occurrence plus 5% of the next layer
Coverage:	95% of the company's ultimate net loss, including loss adjustment expenses, in excess of the company's retention, up to a limit of $45,000,000 per loss occurrence, and $90,000,000 aggregate for the contract year
Premium:	Annual deposit of $2,070,000; actual premium is 1.1500% of subject net earned premium

4.

Type:	Worker's Compensation Excess of Loss
Scope:	Worker's Compensation and Employer's Liability
Effective date:	January 1, 2004
Termination:	December 31, 2004
Reinsurers:	American Re-insurance Company – 75% Aspen Insurance UK Limited – 25%
Retention:	$2,500,000 each occurrence
Coverage:	The ultimate net loss in excess of company's retention, up to a limit of $2,500,000 per loss occurrence, with unlimited reinstatement and $2,500,000 aggregate for terrorism for the contract year
Premium:	Annual minimum deposit of $3,960,000 or 1.268% of subject net earned premium

Table A
Multiple Line Excess of Loss
Participation Schedule

Reinsurer	Participation
American Re-insurance Company	40.0%
AXIS Reinsurance Company	15.0
Converium Reinsurance (North America) Inc.	5.0
Motors Insurance Company	14.0
Hannover Ruckversicherungs-Aktiengesellschaft	14.0
Aspen Insurance UK Limited	12.0
Total	100.0%

Table B
Multiple Line Clash
Participation Schedule

	Participation Layers			
Reinsurer	**1st**	**2nd**	**3rd**	**4th**
American Re-insurance Company	8.0%	0.0%	0.0%	0.0%
AXIS Reinsurance Company	0.0	15.0	15.0	0.0
Endurance Reinsurance Corporation of America	15.0	15.0	18.0	21.0
Folksamerica Reinsurance Company	25.0	20.0	10.0	10.0
Hannover Ruckversicherungs-Aktiengesellschaft	15.0	15.0	15.0	15.0
Liberty Mutual Insurance Company	7.0	4.0	3.5	2.5
New Jersey Re-Insurance Company	0.0	6.0	6.0	6.0
Platinum Underwriters Reinsurance, Inc.	0.0	0.0	17.5	20.5
Swiss Reinsurance America Corporation	0.0	15.0	0.0	0.0
Transatlantic Reinsurance Company	0.0	0.0	5.0	5.0
XL Reinsurance America Inc.	30.0	0.0	0.0	0.0
Aspen Insurance UK Limited	0.0	10.0	10.0	20.0
Total All Participants	100.0%	100.0%	100.0%	100.0%

Table C
Property Catastrophe Excess of Loss
Participation Schedule

Reinsurer	Participation 1st Layer	2nd Layer	3rd Layer
Converium Reinsurance (North America) Inc.	3.00%	4.00%	5.00%
Everest Reinsurance Company	10.00	9.00	9.00
Folksamerica Reinsurance Company	5.00	5.00	5.00
Liberty Mutual Insurance Company	4.00	3.50	2.00
New Jersey Re-Insurance Company	5.00	3.00	1.00
Shelter Mutual Insurance Company	3.50	3.50	3.00
State Automobile Mutual Insurance Company	0.00	1.00	1.00
Transatlantic Reinsurance Company	10.00	8.00	12.00
Endurance Specialty Insurance Ltd.	9.50	7.00	7.00
Hanover Re (Bermuda) Ltd.	5.00	5.00	5.00
Allied World Assurance Company Ltd.	15.00	15.00	15.00
IPCRe Limited	15.00	15.00	15.00
Montpelier Reinsurance Ltd.	6.00	6.00	6.00
PXRE Reinsurance Ltd.	3.00	3.00	3.00
Sirius International Insurance Corporation	1.00	1.00	1.00
Aspen Insurance UK Limited	0.00	0.00	2.00
Odyssey America Reinsurance Corporation	0.00	3.00	0.00
Lloyd’s Syndicate KLN #0510	0.00	1.00	1.00
Lloyd’s Syndicate AFB #0623	0.00	0.46	0.46
Lloyd’s Syndicate AFB #2623	0.00	0.54	0.54
Lloyd’s Syndicate BRT #2987	0.00	1.00	1.00
Total All Participants	95.00%	95.00%	95.00%

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2003, annual statement. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

Sentry Casualty Company
Assets
As of December 31, 2003

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$13,792,982	$	$13,792,982
Short-term investments	1,743,260		1,743,260
Receivable for securities	3,640		3,640
Investment income due and accrued	212,533		212,533
Net deferred tax asset	332,597	332,597	
Total Assets	$16,085,012	$332,597	$15,752,415

Sentry Casualty Company
Liabilities, Surplus, and Other Funds
As of December 31, 2003

Current federal and foreign income taxes		$ 169,721
Payable to parent, subsidiaries, and affiliates		664
Total Liabilities		170,385
Common capital stock	$ 3,000,000	
Gross paid in and contributed surplus	615,641	
Unassigned funds (surplus)	11,966,389	
Surplus as Regards Policyholders		15,582,030
Total Liabilities and Surplus		$15,752,415

Sentry Casualty Company
Summary of Operations
For the Year 2003

Investment Income	
Net investment income earned	$792,783
Net realized capital gains or (losses)	529
Net income (loss) before dividends to policyholders and before federal and foreign income taxes	793,312
Federal and foreign income taxes incurred	169,000
Net Income	$624,312

Sentry Casualty Company
Cash Flow
For the Year 2003

Net investment income			$ 763,776
Benefit and loss related payments		$ (1,024)	
Federal and foreign income taxes paid (recovered)		197,665	
Total deductions			196,641
Net cash from operations			567,135
Proceeds from investments sold, matured, or repaid:			
Bonds	$430,914		
Miscellaneous proceeds	3,050		
Total investment proceeds		433,964	
Cost of investments acquired (long-term only):			
Bonds		1,081,716	
Net cash from investments			(647,752)
Cash from financing and miscellaneous sources:			
Other cash provided (applied)			3,364
Reconciliation			
Net change in cash and short-term investments			(77,253)
Cash and short-term investments, December 31, 2002			1,820,510
Cash and short-term investments, December 31, 2003			$1,743,257

Sentry Casualty Company
Compulsory and Security Surplus Calculation
December 31, 2003

Assets		$15,752,415
Less liabilities		170,385
Adjusted surplus		15,582,030
Annual premium:		
Lines other than accident and health	$ 0	
Factor	20%	
Compulsory surplus (subject to a minimum of $2 million)		2,000,000
Compulsory surplus excess (or deficit)		$13,582,030
Adjusted surplus (from above)		$15,582,030
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)		2,800,000
Security surplus excess (or deficit)		$ 12,782,030

Sentry Casualty Company
Reconciliation and Analysis of Surplus
For the Four-Year Period Ending December 31, 2003

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	2003	2002	2001	2000
Surplus, beginning of year	$14,957,718	$14,378,264	$13,785,085	$13,024,238
Net income	624,312	579,454	593,179	760,847
Net unrealized capital gains or (losses)				
Change in net deferred income tax	(95,410)	16,516	14,002	
Change in non-admitted assets	95,410	(16,516)	(14,002)	
Change in excess of statutory reserves over statement reserves				
Change in treasury stock				
Surplus, end of year	$15,582,030	$14,957,718	$14,378,264	$13,785,085

Sentry Casualty Company
Insurance Regulatory Information System
For the Four-Year Period Ending December 31, 2003

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	2003	2002	2001	2000
#1	Gross Premium to Surplus	0%	0%	0%	0%
#2	Net Premium to Surplus	0	0	0	0
#3	Change in Net Writings	0	0	0	-99*
#4	Surplus Aid to Surplus	0	0	0	0
#5	Two-Year Overall Operating Ratio	0	0	0	102*
#6	Investment Yield	5.3	5.4	5.8	7.8
#7	Change in Surplus	4	4	4	6
#8	Liabilities to Liquid Assets	1	1	2	2
#9	Agents' Balances to Surplus	0	0	0	0
#10	One-Year Reserve Development to Surplus	0	0	0	0
#11	Two-Year Reserve Development to Surplus	0	0	0	-3
#12	Estimated Current Reserve Deficiency to Surplus	0	0	0	0

Prior to SIAMCO's acquisition of Sentry Casualty Company (formerly John Deere Casualty Company), the company was subject to Deere's pooling agreement under which it ceded 100% of its business to the pool and then assumed back a portion of the total. (In 1999, the company had zero direct premium; all written premium was assumed.) This agreement was cancelled upon SIAMCO's purchase of the company. Under the Quota Share Reinsurance Agreement between Sentry Casualty Company and Sentry Select Insurance Company effective October 1, 1999, Sentry Casualty cedes 100% to Sentry Select, and assumes none. Since the company was purchased on September 30, 1999, no direct premium has been written by Sentry Casualty Company. A cash dividend of $29,384,937 was paid in 1999 to stockholders of John Deere Casualty Company prior to SIAMCO's purchase of the company impacting both total assets and surplus. This also caused the unusual ratio for investment yield for 1999, because the company held the larger amount of assets for about three quarters of the year, but the ratio is calculated based on the average of starting and ending assets. The changes in net premiums written, cash and surplus are the factors producing unusual IRIS ratios noted above. The Growth section below also reflects many of these same changes to cash, surplus and premiums.

Growth of Sentry Casualty Company

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income (Loss)
2003	$15,752,415	$170,385	$15,582,030	$ 624,312
2002	15,155,616	197,899	14,957,717	579,454
2001	14,620,392	242,129	14,378,263	593,179
2000	14,085,530	300,446	13,785,084	760,847
1999	13,060,480	36,242	13,024,238	3,825,615

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
2003	$ 0	$ 0	$ 0	0.0%	0.0%	0.0%
2002	0	0	0	0.0	0.0	0.0
2001	0	0	0	0.0	0.0	0.0
2000	0	0	0	0.0	0.0	0.0
1999	10,521,881	10,521,881	23,753,592	83.8	41.5	125.3

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2003, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were no specific comments or recommendations in the previous examination report.

Summary of Current Examination Results

Affiliated Companies

It was noted that the company did not include any amounts in Schedule Y, Part 2, Column 8. According to NAIC Annual Statement Instructions – Property and Casualty, Schedule Y, Part 2, Column 8, should include all revenues and expenditures under management agreements and service contracts, all income tax amounts resulting from intercompany tax-sharing arrangements, all amounts for contracts for services provided by the insurer or purchased by the insurer from other affiliates, and all compensation under agreements with affiliated brokers and reinsurance intermediaries; the introductory portion of these instructions prescribe materiality limits on what must be reported. The company's interpretation is that these limits apply and therefore the company left this schedule blank. Pursuant to s. Ins 40.04, Wis. Adm. Code, all affiliated, management and service agreements are material and the amounts paid to or received from affiliates should be included in Column 8 of Schedule Y, Part 2, pursuant to s. 601.42 (3), Wis. Stat. It is recommended that the company properly complete Column 8 of Schedule Y, Part 2, in all future annual statements, by properly including all revenues and expenditures under management and service agreements pursuant to s. 601.42 (3), Wis. Stat., and s. Ins 40.04, Wis. Adm. Code.

VIII. CONCLUSION

Sentry Casualty Company (formerly John Deere Casualty Company) was acquired by the Sentry group on September 30, 1999. The company has been dormant since it was purchased by the Sentry group. A cash dividend of $29,384,937 was paid in 1999 to stockholders of John Deere Casualty Company prior to SIAMCO's purchase of the company.

The company was licensed in 11 states as of year-end 2003. In 2004 the company obtained licenses in 31 additional states bringing the number of licenses to 42 at year-end. The company plans to obtain licenses in all 50 states. The plan is that Sentry Casualty Company will begin to write business when it is licensed in a sufficient number of states.

The examination verified the financial condition of the company as reported in its annual statement. No examination adjustments or reclassifications are being made. One recommendation concerning properly completing Schedule Y, Part 2, of the annual statement is being made.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 26 - Affiliated Companies—It is recommended that the company properly complete Column 8 of Schedule Y, Part 2, in all future annual statements, by properly including all revenues and expenditures under management and service agreements pursuant to s. 601.42 (3), Wis. Stat., and s. Ins 40.04, Wis. Adm. Code.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	**Title**
Amy Wolff	Insurance Financial Examiner
Angelita Romaker	Insurance Financial Examiner
Eleanor Oppriecht	Insurance Financial Examiner
Richard Anderson	Insurance Financial Examiner
Stephen Elmer	Insurance Financial Examiner
Randy Milquet	EDP Specialists
Tim VandeHey	EDP Specialists

Respectfully submitted,

Kerri L. Miller
Examiner-in-Charge